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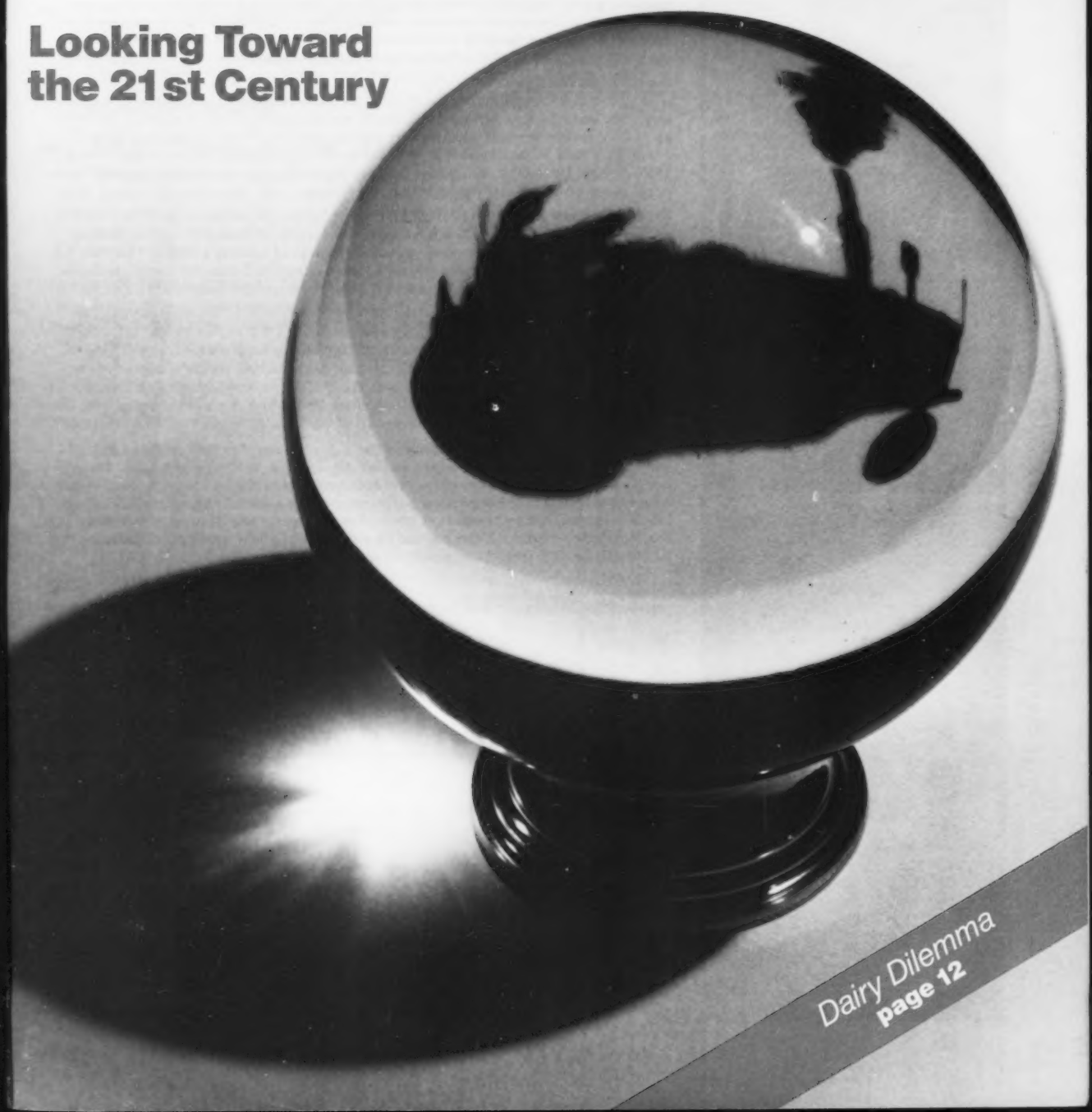
Looking Toward the 21st Century



Dairy Dilemma
page 12

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PERSPECTIVES

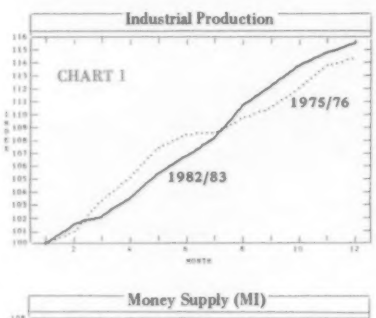
ECONOMIC RECOVERY IS IN FULL SWING, moving at a surprising pace. However, the sharp growth in GNP and drop in unemployment have not ended concerns about high interest rates, large federal deficits, the export-depressing strength of the dollar, and a possible slowdown in economic growth beginning late this year. USDA economist Paul Prentice compared progress during the first 12 months of the current recovery (Dec. 1982-Nov. 1983) with progress during the first 12 months of the 1975-79 recovery (April 1975-March 1976). That recovery, he says, was the strongest one on record. Here are some of his findings:

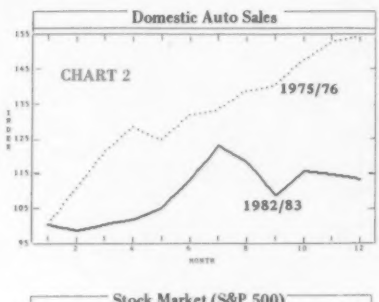
Growth in industrial production (chart 1) matches the 1975/76 pace. So does employment growth. But the effects of the current recovery are uneven through various sectors of the economy. Take domestic auto sales (chart 2). Twelve months into the 1975/76 recovery, sales were up 55%; 12 months into this recovery, they were up only 15%. While housing starts jumped dramatically early in the current recovery, they are not following the steady upward trend of 1975/76. High interest rates are hurting both sectors, and the strong dollar gives imported cars an extra cost advantage in the competition with Detroit.

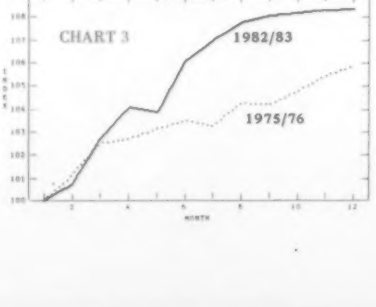
The money supply grew by 8% in 1982/83 (chart 3), fueling the current recovery. It grew only 6% in 1975/76. The difference is that it kept growing at ever increasing rates in the previous recovery. The result: strong economic growth at the price of runaway inflation. This time, the stated policy of the Federal Reserve Board—to reduce growth in the money supply—probably means a weaker but less inflationary recovery. Another difference is interest rates. Real interest rates dropped during 1975-79. Today's tight monetary policy and large federal deficits suggest that real interest rates may remain high and possibly increase from present levels later this year.

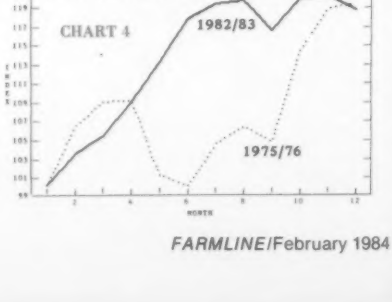
The stock market seems to support the outlook for a "deceleration" in the recovery (chart 4). It typically leads the economy by 6-9 months. After the rapid climb in the first 7 months of this recovery, it leveled off. Contrast that with the 1975/76 pattern, when the market jumped a second time beginning in month 9. That foretold another year of strong economic growth. The recent pattern is less bullish for late 1984 and 1985.

The current recovery, Prentice concludes, is healthy from a noninflationary point of view. It doesn't look as promising in terms of prospective economic growth. Also, high interest rates and the strong foreign exchange value of the dollar are skewing the benefits of recovery away from interest-sensitive and export-dependent sectors of the economy. Agriculture, with its reliance on credit and export markets, is one of those sectors. On the other hand, agriculture should reap the rewards of higher demand for many farm products, probably without a surge in inflation, as the U.S. recovery continues and spreads to other nations.









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AGRICULTURE . . . NATURAL RESOURCES . . . RURAL DEVELOPMENT
Practical economic intelligence from USDA's Economic Research Service

FEATURES

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American agriculture in the year 2000 will probably be shaped by seeds already planted, according to economist John Lee who heads USDA's Economic Research Service. Lee discusses major forces that are setting agriculture's course, critical policy decisions that may alter its prospects, and some surprising changes possible beyond the turn of the century.

Agriculture 1984: Balancing the Books *by Doug Martinez* 7

The financial outlook for agriculture this year contains many bright spots. Higher farm prices and improved cash reserves should benefit the majority of farmers. However, any upturn may not be soon or fast enough for those now overburdened with debt. They'll face another year of difficulty as the real wealth of the farm sector continues to slide.

Dealing with Dairy Surpluses *by Ellen Banker* 12

U.S. dairy farmers will be paid to reduce their milk marketings this year for the first time in the history of the dairy price support program. Why did the dairy surplus problem develop? How did the government get so involved? What impact will the new dairy law have? USDA dairy analyst Cliff Carman and his colleagues provide some of the answers.

Seeking Solutions to Farm Labor Problems *by Doug Martinez* 15

With the leveling off in the hired farm work force, problems of low incomes and unstable employment are commanding greater attention from farm labor analysts. These analysts emphasize the diversity among hired farmworkers, their prominent role in today's agriculture, and the productivity link already discovered by some progressive agricultural employers.

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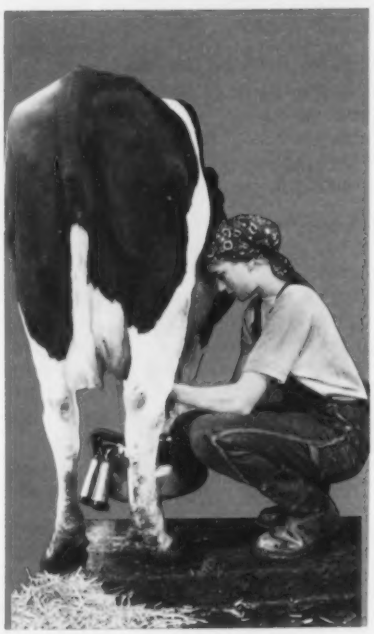


Agriculture 2000: From Seeds Already Planted

American agriculture at the turn of the century will probably be shaped by seeds already planted, according to USDA economist John E. Lee, administrator of the Economic Research Service. Noting that 2000 A.D. is just 16 years away, Lee said, "No one can predict exactly what agriculture will be like then, nor the exact path from now to then, but we can identify some of the forces currently at play."

Lee presented his perspective on the outlook to the end of the century at USDA's annual Agricultural Outlook Conference held last November.

Specifically, he described four major forces that will shape the future of U.S. agriculture:

- agriculture's linkage to world markets.
- agriculture's ties to the general economy.
- technology, productivity, and resources.
- farm and food policies.

Linkage to World Markets

Despite recent disappointments in export markets, U.S. agriculture will remain heavily involved in world trade. "Substantial withdrawal to domestic markets is unrealistic," Lee said.

Domestic food demand is increasing only in proportion to population growth. In 1945, 312 million acres of crops were harvested to meet domestic food and fiber needs. Today, fewer than 250 million acres are required for domestic needs because yields have outpaced U.S. population growth. If the trend continues until 2000, Lee predicted, the United States could require as little as half its current cropland base to meet domestic needs.

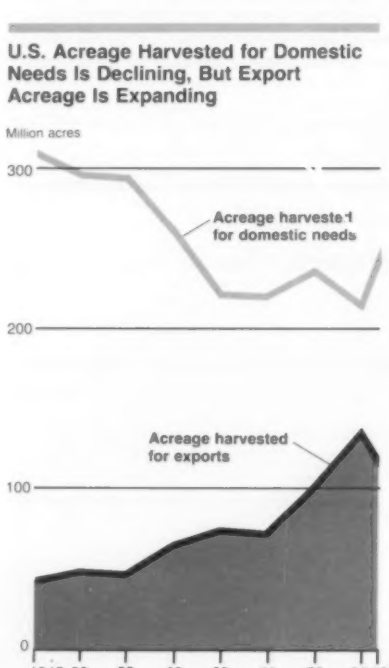
Global food demand, on the other hand, has greater growth potential. Although trade isn't expected to expand as rapidly as it did in the 1970's, food imports by poor and middle-income countries will increase with economic recovery, renewed development, and population and income growth. This will provide future trade opportunities for the United States.

"Success in world agricultural markets will be a real challenge," Lee continued. There are few international rules, and all nations face temptations to restrict certain imports and subsidize certain exports. Also, foreign markets are fiercely competitive, less stable than domestic markets, and more unpredictable.

"This instability is the price we must pay to trade in world markets," Lee said. "Over the rest of this century, trade issues will present our farmers and their policymakers with difficult choices."

The immediate challenge, he said, is to figure out how to improve the U.S. export position while expanding the overall size of the world market. The long-term challenge is determining the level of exports and the characteristics of export policy which will serve our overall national interests. "How we do this will have a lot to do with what U.S. agriculture is like in 2000."

U.S. Acreage Harvested for Domestic Needs Is Declining, But Export Acreage Is Expanding



Ties to the General Economy

U.S. farmers will continue to have a substantial stake in domestic economic policy. Lee cited high interest rates, in particular, to illustrate agriculture's vulnerability to unfavorable developments in the U.S. economy and how these developments can have global implications for agriculture's markets.

High interest rates, he maintained, increase the costs of doing business and create cash flow problems for farmers carrying large debts. At the same time, they reduce both domestic and foreign demand: domestic demand by discouraging investment and slowing economic growth; foreign demand by driving up the value of the dollar, making our goods more expensive to others, and by imposing additional credit costs on countries that must borrow to buy.

He noted, however, that concern cannot be focused on interest rates alone. "Interest rates link to money supplies, budget deficits, inflation, tax policy, the strength of the dollar, and a host of other factors in complex ways." Unless these linkages are considered, he said, farmers can push for a solution to one problem and create another in its place. High interest rates, for example, are part of the "withdrawal pains of coming off our inflation high."

One of today's key economic issues is the large federal budget deficit, Lee said, observing that agriculture has an interest in whatever actions are taken. The deficit can be financed by printing money, which risks rekindling inflation, or by government borrowing, which keeps interest rates up by generating more competition for the money that's

Water is likely to emerge as a greater and more immediate concern.

available. Sooner or later, the deficit must be reduced, and that means increasing taxes, reducing government expenditures, or some combination of both—again with consequences for agriculture.

"How all this is resolved, or not resolved, could have more impact on U.S. farmers in the long run than the 1985 Farm Bill, as important as it is," Lee added.

Technology and Resources

Some might argue that farmers would be better off if we slowed productivity growth by reducing investment in technology. The goal—to stabilize output, reduce supplies relative to demand, and boost farm prices. To Lee, this would be short-sighted policy. "Any nation that does not maintain investment in research and science is gambling with its future and its competitive position."

Technology, however, does not develop in a vacuum, untouched by the institutions and economics that surround it. Although technology may be the engine behind productivity growth, the demand for technology is price responsive. Farmers respond to economic incentives, he explained, in adopting new technologies. The positive side of all this is that, given the economic incentives to change the mix of land uses and to apply technology to more intensive farming practices, "we can expand exports faster than we once thought without running into limits on our capacity."

If growth in demand is modest, as current prospects suggest, there will be a shift in the focus of research, Lee predicted. More attention will be devoted to conserving resources and using them more efficiently. "Already irrigation research has shifted away from water development to water conservation," Lee said. Emphasis on soil conservation will continue, but water is likely to emerge as a greater and more immediate concern.

Whatever the pressures for productivity gains between now and 2000, technological development is certain to influence the way farm businesses organize to produce in the next century.

The new electronic information and home computer technology, for instance, will affect not only the quantity, quality, and speed of information

Keys to Successful Selling

How can we be successful traders in future world markets? Here are some of Lee's prescriptions:

- Our domestic farm policies have to be strategically and economically consistent with the realities of world markets. This means our farm programs must be flexible and responsive to unpredictable global market developments; they must be sensitive to the role of price in determining the effective level of global demand; they must assure that we're a reliable supplier at competitive prices; and they must deal with instability in supply and demand and the sharing of risks between farmers and the public.
- Our internal economic policies have to be consistent with our trade objectives so that we're not pursuing domestic policies that may inadvertently damage our market position.
- Our overall national trade policy must be consistent. We cannot be free traders for some products or industries and protectionists for others. If we want to sell, we must be prepared to buy. Some industries and commodities may not be competitive, and they will shrink or succumb under free trade pressures. Thus, a commitment to expanded trade and global linkages means we must be prepared to make tough internal adjustments.
- We must be more astute traders, gearing our products and our marketing efforts to the needs of buyers.
- We need to add more value to our exports through further processing where we have a comparative advantage in processing.
- We must come to realize that it is in our enlightened self-interest to support and contribute to a healthy global economy, and we must encourage other major traders to share this commitment.

Courtesy of
Farm Futures magazine.

available to farmers, but also the way information is used. "Information technology will beget management technology," Lee said. More farmers will turn to computer programs and electronic information systems to plan, manage, produce, and market. As a result, farmers may be able to handle more resources and handle them better, reducing managerial costs.

Farm and Food Policies

Farm policy and trade policy are inseparable, Lee contended, and more lawmakers are sensitive to the trade and competitive implications of domestic farm policy tools. Intelligent decisions require an understanding of the tradeoffs that are involved when these tools are applied.

He cited farm price supports as one domestic policy tool with trade implications. Because of the importance of price in world markets, high price supports jeopardize our competitive position. He also noted that demand for U.S. agricultural products may not be strong enough to take the slack out of production capacity at prices near or above current target prices. But lower price supports have tradeoffs, too, in terms of reduced price protection for farmers.

"How lawmakers choose to reconcile this information will be critical to the character of U.S. agriculture for the rest of this century," he said.

Another area getting more attention is the need for consistency among commodity, credit, and resource policies, so that different programs are not sending conflicting signals. Consistency, he said, should also apply within individual programs. "The constant changing of programs is a major source of uncertainty, and hence inefficiency."

More farmers will use computers and electronic information systems to plan, produce, and market.

Finally, the profound changes in American agriculture must be considered in formulating policy. Fewer than 300,000 commercial farms produce nearly 70 percent of U.S. farm output. The remaining farms benefit little from traditional farm programs, they are not generally poor, and they have other sources of income. Meanwhile, the ability of the larger, commercial farms to compete in world markets may be hindered by present policies.

Longer Term Considerations

Looking beyond the end of this century, Lee foresees a number of developments that could combine to alter agriculture's prospects and characteristics.

One is the possibility of maturing food and fiber markets. As economic development takes place in poor countries, demand for food will rise, but eventually per capita consumption is bound to stabilize. "Add to this the possibility of a stabilizing global population, perhaps in the second quarter of the next century, and the result is relatively flat world demand for food and fiber," Lee said.

This could lead to fierce competition for fixed markets, or—more likely—greater specialization as countries with a comparative economic advantage in certain products become the world's suppliers for those products. In either case, the position of U.S. agriculture will depend on "whether our technology stays at the leading edge and our policies encourage an affluent and competitive farm industry."

On the brighter side, perhaps, is the possible development of major new uses for agriculture's productive capacity. One prospect Lee outlined is that of looking to agriculture as a source of "renewable" resources, rather than further mining of dwindling "stock" resources. "Biomass fuels may become economical, and industry may turn to agriculture for a wide variety of renewable raw materials. In this case, agriculture might become proportionately less of a food industry and more a supplier of industrial raw materials," Lee said.

One fact of life remains, and that's the potential depletion of stock resources, such as fertilizer minerals and groundwater supplies. Agriculture must eventually adjust to the loss of these resources. Basic scientific research, according to Lee, should focus on the development of plants that thrive in native or natural or in dryland conditions rather than depending on irrigation.

Out there in the 21st century, Lee concluded, "agriculture will continue to be a very important industry—but fewer people may identify with farming as a way of life. For most Americans, that will be a part of our folklore, like the 'Old West'." Large farms will dominate the sector, but Lee assured his audience that small-scale agriculture will thrive around the edges. □

Agriculture 1984: Balancing the Books

The financial outlook for agriculture this year contains many bright spots, but problems may persist for farmers now facing financial difficulties.

On the plus side, net farm income is going up. Early-season forecasts put it somewhere in the range of $29-$34 billion, up from 1983's estimated $22-$24 billion, according to economist Gary Lucier of USDA's Economic Research Service. Factored into this forecast are expectations for larger harvests this year, which would boost the value of farmers' crop inventories. The value of inventory changes is counted in net farm income figures.

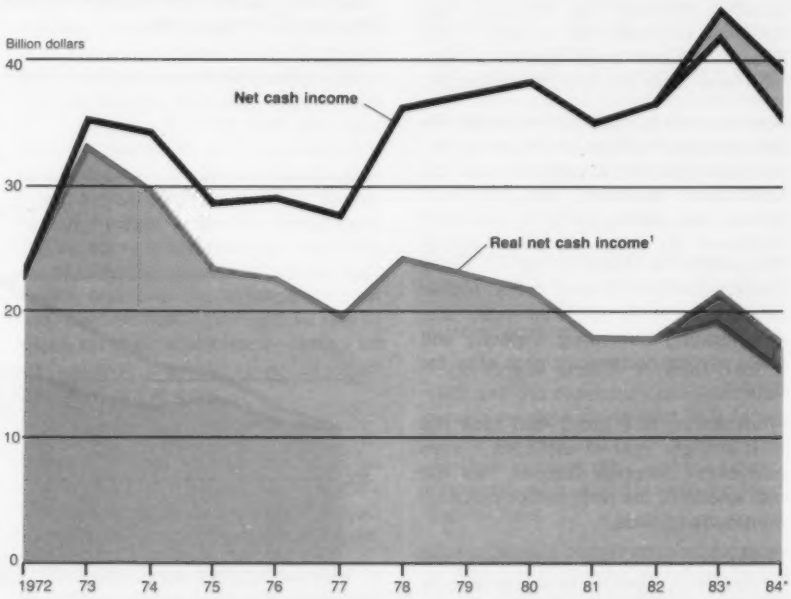
Net cash income, a measure of the money available to farmers after meeting cash expenses, is expected to drop because of higher production expenditures and some reduction in government payments. But this news isn't surprising. Last year, net cash income was a record $42-$44 billion, based on current estimates. Combined with 1983's record, the $35-$39 billion forecast for 1984 still suggests that the farm sector, overall, is in a better position than it was in 1981-82.

Behind the generally positive interpretation of these income indicators are a number of factors, including higher farm prices. The 1983 drought and acreage reductions reduced stocks and boosted prices of grains and other crops. "Prices should average 4 to 6 percent above those of 1983. However, crop prices probably will weaken in the second half of the year if the 1984 harvest looks large," Lucier says.

Farmers who escaped last year's drought damage and brought in good feed grain or soybean crops rode the tide of rising prices. Farmers who took part in PIK and other acreage reduction programs reaped dual benefits of higher product prices and sharply lower production expenses. A large segment of both groups entered 1984 with substantial cash reserves.

Income gains and higher cash reserves at the farm level, Lucier says, will slow the growth in farm debt by reducing borrowing and helping operators pay off some of the debts accumulated in previous years. An added bonus: The inflation rate is expected to remain relatively low, and this will have a

Farmers' Net Cash Income Set a Record in 1983, Though Income in Real Terms Remains Relatively Low



¹Adjusted for inflation using 1972 constant dollars.

*1983 estimated; 1984 forecast.

For some, the upturn may not be soon or fast enough.

moderating effect on prices for farm production inputs.

The outlook is also a bit brighter on the demand side. Prospects for continued, if modest, recovery in the U.S. economy bode well for growth in domestic demand, while U.S. agricultural export earnings are forecast to rise for the first time since 1981.

All in all, 1984—like 1983—is shaping up as a better year than either 1981 or 1982, according to Lucier's assessment. The improved prospects apply to the majority of well-established farmers who did not overextend themselves with debt in the 1970's or early 1980's.

Continuing Problems for Some

For others, however, the upturn may not be soon or fast enough. Real farm income, adjusted for inflation, has remained relatively low. Livestock producers' returns have suffered from high feed costs and low product prices.

Recent relief for many crop producers has come in the form of PIK and other acreage reduction programs, reduced production expenses, and improved prices; but some farmers are still burdened by large, fixed financial obligations. A combination of heavy debts, still-high interest rates, higher production expenses this year, and deteriorating borrowing capacity will likely create continuing problems for them.

"Farmers in this group will face the fifth straight year of difficulty," says economist Stephen Gabriel, "as the real wealth of the farm sector probably continues to slide."

Production expenses, particularly, will be higher, as farmers bring more acreage back into production. The rising volume of inputs may boost production expenses for 1984 from 7 to 9 percent over 1983. Expenditures for manufactured inputs will probably rise more rapidly than for other inputs, with the largest increases coming in fertilizer, seed, fuels, pesticides, repairs and operation, hired labor, and machine hire.

Fuel expenses may rise 13 to 17 percent over 1983, a result of higher fuel prices and increased planted acreage. Outlays for pesticides, too, will be steeper. A substantial increase in use is expected to push pesticide expenses 15 to 19 percent higher in 1984.

Underlying the more visible cash flow problems for some farmers is the financial foundation of agriculture—equity—which is of potentially greater concern.

"Farm equity provides lenders with the security needed to continue with customers experiencing cash flow difficulties. Because real farm equity has been declining for many operators since 1980, farmers' borrowing capacity has contracted and many lenders are putting greater emphasis on cash flow analysis," says Gabriel.

More Belt-Tightening

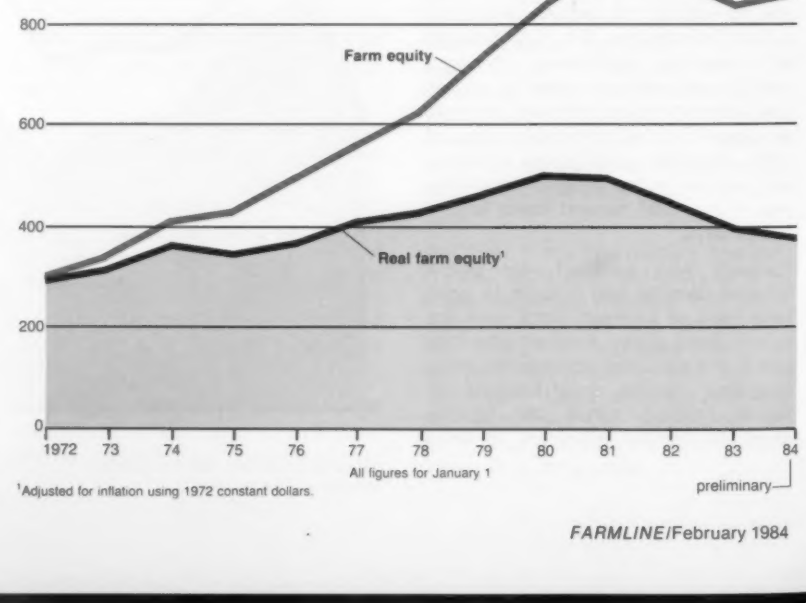
What does all this say to the people producing our food and fiber?

"A number of farmers will continue to tighten their belts to restructure balance sheets and improve cash flow," Gabriel says.

In fact, financial leverage—the kind and amount of debt carried by a farmer—is "probably the single most important determinant of the financial status of the individual farmer during difficult times," he adds.

About one-half of all farmers carry no long-term debt at all, but that doesn't provide a complete picture. A more tell-

Real Farm Equity—the Inflation-Adjusted Wealth of the Farm Sector—Slides for the Fourth Straight Year



¹Adjusted for inflation using 1972 constant dollars.

ing measure is that most commercial sized farms—those generating sales of $100,000 or more and receiving about 57 percent of the farm sector's total cash receipts—owed about 60 percent of all debt.

"Farm debt is highly concentrated among large commercial farmers," says Gabriel, "and some of them have considerable debt."

He cites the situation of farmers with sales of $500,000 or more. "Their average debt-to-asset ratio was 37.4 percent on January 1, 1983. This compares with 20.6 percent for agriculture as a whole."

Further analysis of farm debt reveals a high "risk exposure" for some farmers who are carrying heavy debt loads.

"About 65 percent of all farm debt is owed by farmers carrying debt-to-asset ratios over 40 percent. Farmers with debt-to-asset ratios of 70 percent or higher owe about 30 percent of all farm debt."

"Hence," Gabriel continues, "the majority of all farm debt is held by highly leveraged operators who are most vulnerable to unstable commodity markets."

It's important to note, however, that large farms can generally absorb greater debt ratios than smaller farms. Economies of scale are involved here, with larger farms having proportionately lower costs of production than smaller farms.

Also, large farmers rarely become large without borrowing heavily to expand, and many of these farmers accumulated substantial equity during the boom years of the 1970's. This puts them in a better position to withstand several years of static or declining equity values and depressed incomes.

Effect on Profitability

On the other hand, those who borrowed heavily to expand or enter farming in the 1970's and early 1980's—expecting continued growth in farmland and other asset values—may have overextended themselves.

Figures for 1982 clearly show the effects of heavy debt on the profitability of farms.

That year, the average rate of return to farm assets was 3.1 percent, the farm debt-to-asset ratio was about 20 percent, and the average interest rate on outstanding farm debt was about 11 percent. Combined, the factors were responsible for providing an average rate of return on equity capital of about 1.1 percent, the lowest in almost 50 years. (The rate of return on equity capital measures the farmer's income return on his investment after taking into account his financing costs.)

"Since the farmer's profitability depends on his rate of return on assets, his debt-to-asset ratio, and his average interest rate, it is impossible to estimate how many farmers are earning a negative return on equity," says Gabriel.

However, some information is available from surveys of those farmers holding debt. The Census of Agriculture Farm Finance Survey indicates that in 1980 about 50 percent of all farm debt was held by operators with debt-to-asset ratios over 40 percent. Current estimates indicate that as much as 65 percent of the debt is owed by operators in that category today. "If these operators are earning the average return on their assets and pay the average interest rate, they are making a negative rate of return on their investment—based on the current market value of their assets," Gabriel says.

Cash Flow Remains A Problem

Analysts expect the rate of return on farm production assets to rise only gradually in light of near-term projections for crop and livestock markets.

Estimates for 1983 indicated that up to 18 percent of all farm operators had debt-to-asset ratios of 40 percent or more. Those farmers owed about two-thirds of all farm debt. "It seems apparent that significant numbers of farmers will be experiencing cash flow difficulties in the foreseeable future," says Gabriel.

Those who borrowed heavily to expand or enter farming may have overextended themselves.

"Farm liquidations are occurring at higher than normal rates and can be expected to continue at least for the next couple of years. Thus, the farm sector will lose many inefficient or poorly managed businesses," he says. It may also lose some operators whose only fault was that they entered at the wrong time, with little equity and large variable-rate loans. When interest rates went up, the variable-rate mortgages sapped their cash flow, adds economist Lucier.

For the year ending June 1983, the delinquency rate on farm loans at agricultural banks was about 3.7 percent, and the percentage of farmers who went out of business was about 2.3. Both figures were unchanged from a year earlier. However, a larger number of farmers went through bankruptcy —1.1 percent compared with three-fourths of 1 percent the previous year.

Both economists note, however, that we may be turning a corner, depending on developments in agriculture and the general economy.

"The slower growth in farm debt in 1983 and the expected continued slow growth in 1984 could lead to a reduction in the debt burden in terms of both the debt-to-asset ratio and the ratio of interest expenses to net cash income," Gabriel says. □

[Based largely on information provided by Stephen C. Gabriel and Gary Lucier of the National Economics Division, Economic Research Service.]

CALENDAR OF REPORTS

Winter/Spring 1984

Titles of Economic Research Service reports are printed in color. Summaries of these reports are released at 3 p.m. on the dates shown. The complete reports are off press 10 days to 2 weeks later. *Agricultural Supply and Demand Estimates* reports, issued by the World Agricultural Outlook Board, are also printed in color. These reports are released to the press in their entirety on the dates shown. To request subscription information on any of these reports, write: EMS Information, Room 440 GHI Bldg., USDA, Washington, D.C. 20250.

Titles of reports issued by the Crop Reporting Board of the Statistical Reporting Service are printed in black. Complete reports are released—most at 3 p.m.—on the dates shown. To request subscription information, write: Crop Reporting Board, Room 5829 South Bldg., USDA, Washington, D.C. 20250.

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Eating and Spending Trends

Americans consumed an average of 1,387 pounds of food per person, retail weight, in 1982. That's down about 7 pounds from 1981 and down 18 pounds from 1980.

Pork, dairy, fruit, and wheat flour consumption dropped, while poultry, fats and oils, vegetable, and rice consumption rose. Since 1962, per capita consumption figures have ranged from a low of 1,368 pounds in 1974 to 1979's high of 1,421 pounds.

Crop products dominated the 1982 menu at 814 pounds per person, compared with 573 pounds of animal products. Twenty years ago, the margin was narrower—767 pounds of crop products, compared with 609 pounds of animal products.

Food prices increased less than the general inflation rate for the fourth straight year in 1982. The Consumer Price Index for all items climbed 6.1 percent, but the food component registered an increase of only 4.0 percent—the smallest rise since 1976.

Higher food prices and population growth boosted consumer food expenditures. Total food spending by Americans rose 6.3 percent to $350 billion in 1982. About 85 percent of this, $299 billion, went for foods originating on U.S. farms.

Farmers received $83 billion for the farm products used in these foods, while $216 billion went to those in the marketing chain—processing, transportation, wholesaling, retailing.

This report is a comprehensive source of food consumption, price, and expenditure statistics for the last 20 years. Included in its 90 tables are data on:

- Supplies and usage of most farm commodities.
- Per capita consumption on both a retail and farm-weight basis.
- Nutrient availability.
- Retail and producer prices.
- Farm-to-retail price spreads.
- Food marketing costs.
- Consumer incomes and food expenditures.

Food Consumption, Prices, and Expenditures, 1962-82, compiled by Anne Rogers. (Published December 1983; 103 pages of data tables, with a brief introduction; GPO Stock No. 001-000-04378-1; $4.00.)

Chock-full of Charts

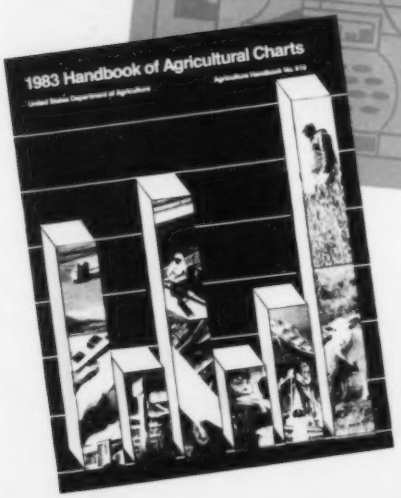
Agricultural and economic information comes alive in one of USDA's bestselling publications, the annual *Handbook of Agricultural Charts.*

Its 278 charts make it a valuable reference work, a popular teaching tool, and a convenient source of visual aids to dress up speeches and reports. Coverage is as broad as agriculture itself.

Users of the handbook can find graphic illustrations of historical trends and current developments in trade and world production, farm finances, inputs and productivity, land uses and land values, food prices and consumption, nutrition, population and rural development, costs of living, health and education, and food assistance.

Commodity sections provide detailed charts covering livestock and poultry, grains, oilseeds, fruits and vegetables, and other major farm products.

1983 Handbook of Agricultural Charts. (Published December 1983; 100 pages with 278 reproducible charts; GPO Stock No. 001-000-04377-3; $5.00.)



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Dealing with Dairy Surpluses

America's dairy farmers will be paid to reduce their milk marketings this year for the first time in the history of the dairy price support program. Part of the diversion payments will be funded by dairy farmers themselves.

Supporters of the new dairy legislation, which was signed by President Reagan late last year, hope to reduce the nation's milk output and cut the amount of money the government spends in buying and storing surplus dairy products.

Critics, however, contend that the new program will be difficult to administer, that there is no cap on payments to any one producer, and that some farmers will be paid for output reductions already made before the law took effect. In addition, there's still no guarantee that troublesome surpluses won't re-emerge as a problem after the 15-month diversion program ends on March 31, 1985.

Basically, the program does the following:

- pays dairy farmers who participate $10 for every 100-pound (cwt) reduction in milk marketings, from 5 to 30 percent of their 1982 or average 1981/82 "base" marketings.
- reduces the federal dairy support price available to all producers by 50 cents to $12.60 per cwt of milk. The law allows for additional support price cuts of up to $1 in 1985.
- reduces in half the assessment dairy farmers pay the government. It does this by imposing one mandatory 50-cent assessment on milk marketings and eliminating the Agriculture Secretary's discretionary authority to impose two 50-cent assessments. The money collected will help finance the diversion payments made to dairy farmers.
- establishes a national dairy promotion and research program to boost dairy product consumption. The program will be paid for by dairy producers through deductions of up to 15 cents per cwt on their milk marketings.

Too Much Milk

On one point, both critics and supporters agree: There's too much milk. The new program is the fifth piece of dairy legislation since 1981 that attempts to reduce surpluses. The preceding four were not successful. Fiscal 1983 ended with record production (138.1 billion pounds) and record government expenditures ($2.5 billion).

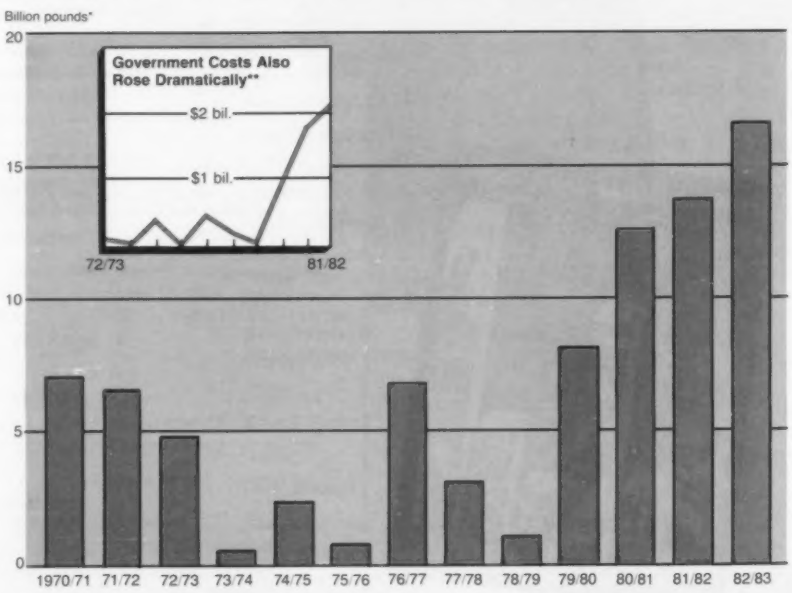
According to USDA economist Cliff Carman of the Economic Research Service, dairy farmers have been responding to strong economic signals that continued to encourage increased production even though surplus milk products have been a problem since 1980. Prominent among these signals were rising support prices. Support prices reached $13.10 per cwt on October 1, 1980, up from $9 on October 1, 1977. Under the 1982 budget act, another support price increase was scheduled for this coming October.

Carman explains that increased output was also encouraged by most of the other factors that influence milk production: low slaughter cow prices, generally favorable feed prices, and the lack of attractive income alternatives on or off the farm.

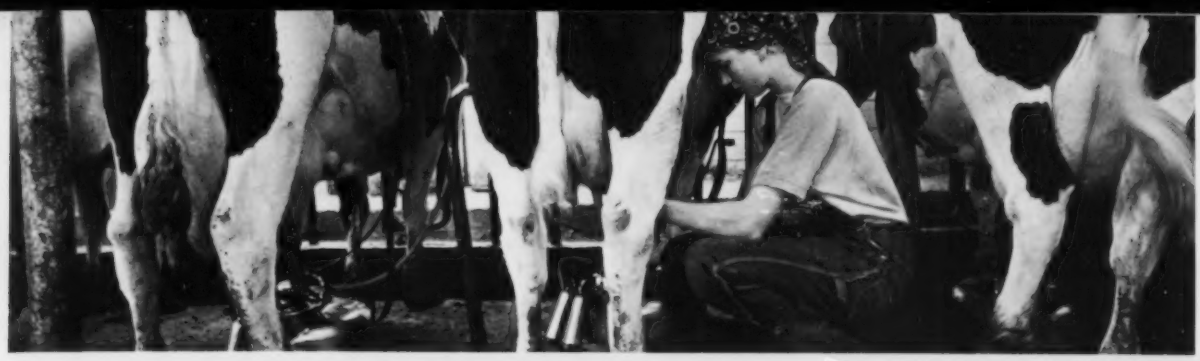
Although milk consumption has been rising along with population, it has not kept pace with production. While milk output increased by about 15.6 billion pounds from 1979 to 1983, commercial use rose only about 1 billion pounds. One major reason is declining per capita consumption as consumers switched to competing products.

In 1960, per capita fluid milk consumption totaled about 32 gallons per person, more than double the 14 gallons of

Government Purchases of Dairy Products Shot Up in the Early 1980's



*Milk equivalent weight. **CCC net outlays for dairy programs.



soft drinks consumed. By 1982, the average American was drinking only 27 gallons of milk a year but 40 gallons of soft drinks.

The result of the growing gap between production and consumption has been excess fluid milk that is manufactured into butter, cheese, and nonfat dry milk. Much of it ends up in government storage.

During 1982/83, USDA purchased an equivalent of 16.6 billion pounds of milk, about 12 percent of all milk sold by farmers. That was up from the previous year's 13.8 billion pounds, or about 10 percent of all milk sales. The cost was around $2.5 billion, compared with $240 million just a few years earlier.

Surplus Dilemma

On the surface, it may seem perverse to fight the folly of paying for milk that no one wants by paying for milk that isn't produced.

"But the bill could set a strategy that allows farmers time to shift their production from milk to something else," Carman says. "What happens after this paid diversion program ends will depend on the type of legislation that is proposed for the 1985 farm bill."

How many dairy producers will cut production? According to an early-1983 survey by *Hoard's Dairyman,* an industry magazine, about 60 percent of all dairy farmers said they would be willing to participate in such a program.

This brings up another question: If they do participate, will dairy farmers cull their herds or hold their cows for future production? Carman expects more culling than holding, but projections are full of uncertainty.

Farmers don't have to cull their herds if they participate in the program. It's a marketing, not a production program.

"They can do anything they want with the extra milk, like feeding it to calves or dumping it, as long as it doesn't leave the farm," Carman says. However, the variable costs (feed, etc.) of retaining a cow are about $7 per cwt of milk produced. "This should discourage most producers from keeping sizable numbers of cows whose milk cannot be marketed," Carman adds.

So estimates are for reduced milk production and reduced marketings in 1983/84, with marketings ranging from 123.8 to 132.2 billion pounds compared with 135.7 billion pounds in 1982/83.

Trade-offs

How many dairy cows will go to slaughter this year? Many combinations of changes in cow numbers and output are possible. Preliminary USDA estimates, assuming a 5-percent cut in milk marketings from the 1982 base, indicate slaughter of as many as 1 million additional dairy cows between January and September of this year, with most slaughtered before July.

Many beef producers see this as troublesome news. Their concern: depressed livestock prices.

According to USDA livestock analyst Ron Gustafson of the Economic Research Service, beef cattle prices could be pressured downward later this winter and spring. Obviously, the more cow marketings increase, the more beef prices will drop.

"Through the first half, consumers should see about the same to slightly lower beef prices as they did a year

A Question of Balance

Consumers expect fresh milk on the shelves whenever they shop, but they shop more frequently on some days than others.

As a result, milk demand varies on a day-to-day basis at the processing level, too. The trouble is that cows don't take consumers or processors into consideration. A cow's production is fairly constant from one day to the next in any given season.

Raw milk picked up from the farm on Sunday can't be held to meet peak retail demand later in the week, so the farmer who gears his daily production to meet Friday's demand will probably be supplying excess milk on Sunday.

Further complicating the situation are seasonal fluctuations. Generally, a cow gives more milk in the spring and summer than in the fall and winter. Likewise, the demand for different dairy products fluctuates seasonally. Ice cream demand, for example, is much larger in the summer than in the winter.

Therefore, the industry must produce some oversupply or reserve of fluid milk, especially during the flush production season, to make sure there is enough fluid milk to meet consumer demand at all times.

The excess milk is processed into manufactured products that are storable, such as butter, cheese, and nonfat dry milk powder. The CCC purchases these products when supplies exceed demand at a given price goal, and it sells them back to the industry during the slack milk production season or whenever needed.

Under ideal circumstances, the purchases and sales about balance out. The last year of approximate balance was 1979. Since then, milk production has grown so rapidly that CCC purchases far exceed sales back into the market.

ago, particularly for hamburger beef," Gustafson says. Pre-legislation estimates were for price increases of around 2 to 5 percent.

However, the longer term impacts could be somewhat different since beef producers are always affected by the number of culled dairy cows and dairy calves. In late 1984, cull cow slaughter from the reduced dairy herd would probably decline from both the large levels earlier in the year and from year-earlier levels. Beef production was already expected to fall below year-earlier levels in the second half of 1984 and into 1985, strengthening cattle prices. "With less competition from dairy sector beef in 1985, beef prices should recover even further," Gustafson says.

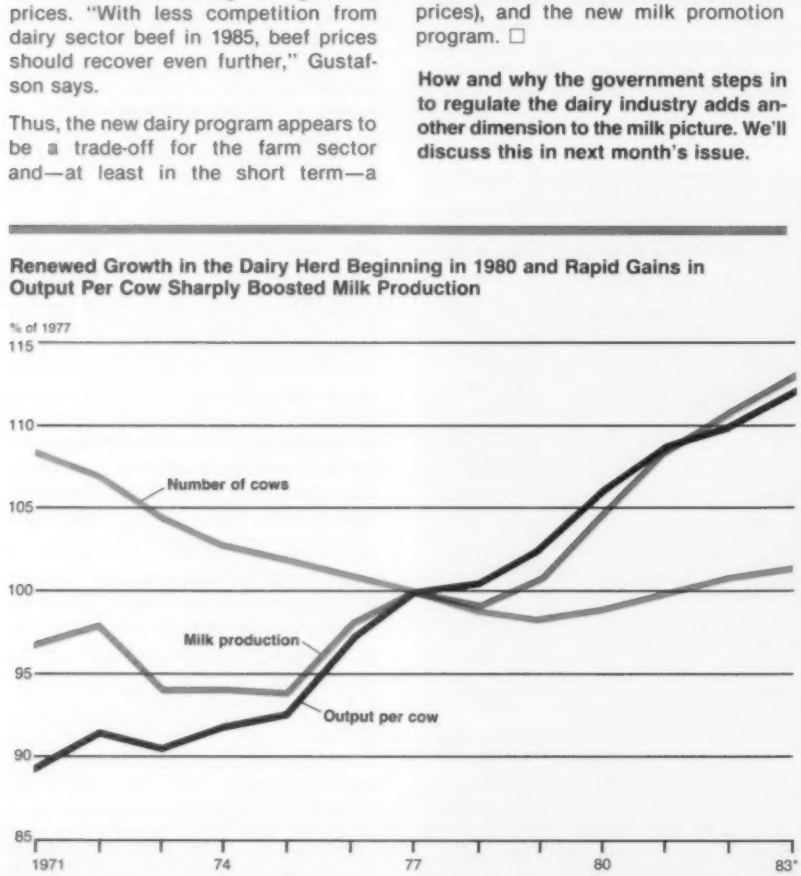
Thus, the new dairy program appears to be a trade-off for the farm sector and—at least in the short term—a bonus for consumers in terms of holding down or delaying both milk and beef price increases. More important, perhaps, it could result in a dramatic drop in dairy surpluses which cost more than $2 billion last year.

USDA analysts say that net purchases of dairy products by the CCC could drop to under 8 billion pounds—down from 16.6 billion in 1982/83. This assumes that milk production and marketings drop about 5 percent in 1983/84 and commercial use rises about 2 percent because of a stronger economy, lower price supports (which should ease pressures on retail milk prices), and the new milk promotion program. □

How and why the government steps in to regulate the dairy industry adds another dimension to the milk picture. We'll discuss this in next month's issue.

[Based on material provided by dairy analyst Cliff Carman of the National Economics Division, Economic Research Service, and other USDA economists.]

Renewed Growth in the Dairy Herd Beginning in 1980 and Rapid Gains in Output Per Cow Sharply Boosted Milk Production



*Estimated.

A More Productive Cow

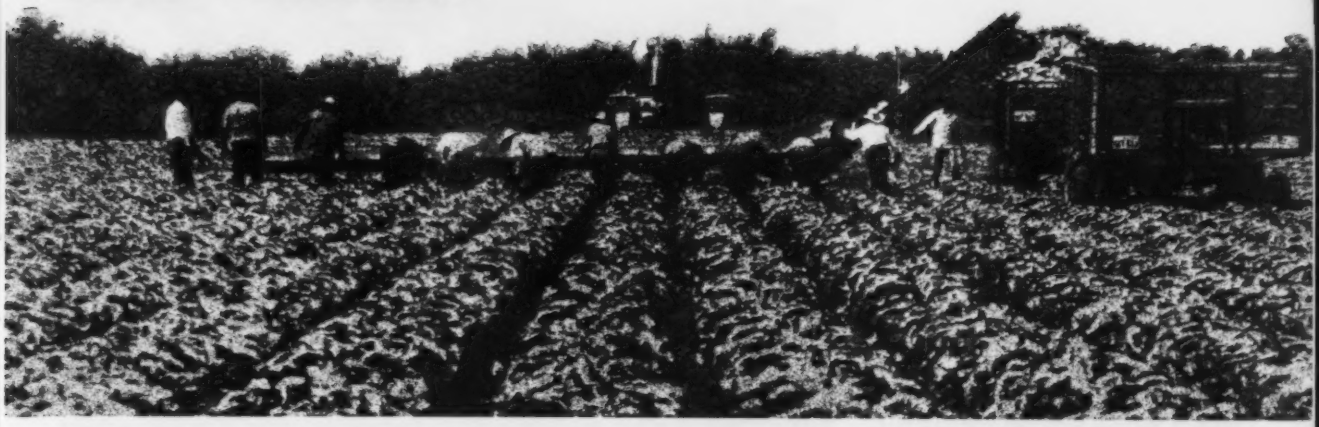
More cows in the last few years aren't the only reason for more milk. The productivity of milk cows has increased substantially. Today's average cow gives about 12,500 pounds of milk per year, three times as much as in 1925 and more than twice as much as in 1950.

Many cows are now producing in the range of 15,000 to 20,000 pounds. And agricultural research projects, using computerized feeding methods, regularly achieve a yearly average milk production of over 20,000 pounds per cow. Some farmers are now milking cows three times a day, rather than twice, to increase output even more.

During 1983, America's 11.1 million cows—only about 60 percent of the number 25 years ago—set an all-time milk production record. Experts say we'll see additional gains in cow productivity as the U.S. dairy herd continues to be genetically improved and as farmers increase concentrate feeding and further improve their management techniques.

"Because of the current diversion program, however, output per animal could average less than it did last year. Dairy farmers who are participating in the diversion program will probably make some of the required marketing reductions through reduced feeding rates or other management practices," says USDA economist Cliff Carman.

Seeking Solutions to Farm Labor Problems

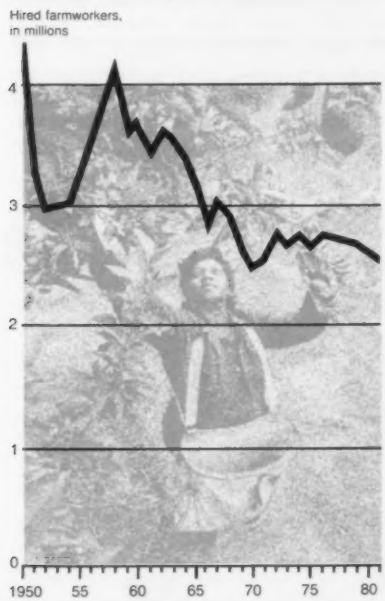


Many of the nation's hired farmworkers face two persistent problems. Their earnings from farmwork are among the lowest of all occupational groups. Also, because of the often seasonal nature of farmwork, their employment may be sporadic and unstable.

These problems aren't new, and they aren't expected to disappear in the foreseeable future. However, some of the more progressive agricultural employers have developed practices that may help to improve wages, benefits, and working conditions, as well as increase productivity, in the hired farm work force.

How well these practices work and how widely they can be applied in agriculture may be key questions in the years ahead.

Hired Farmworker Numbers Stabilized In the 1970's After Years of Decline



No survey was conducted for 1953, 1955, 1978, or 1980.

To some extent, at least, this represents a shift in focus from "solutions" of the relatively recent past, when the income problems of farmworkers were often viewed in terms of excess labor competing for a dwindling number of jobs in agriculture. No longer, it seems, do farm labor analysts have to devote as much of their attention to the displacement of farmworkers by mechanization and prospects for integrating the displaced workers into other sectors of the economy.

During the 1950's and 1960's, increased mechanization and technological progress contributed to large reductions in the number of hired farmworkers and changes in the nature of their work. However, displacement of workers slowed considerably as large-scale mechanization leveled off during the 1970's.

"The number of farmworkers has remained stable during the last decade after years of decline," says Leslie Whitener, a sociologist and specialist in rural labor with USDA's Economic Research Service. "Even though mechanization is still occurring in some crops, like grapes in California, increased attention is now being given to other farm labor issues."

Events have pushed labor into a more prominent place on the agricultural agenda.

Among these issues are increased stability of employment, improved wages and working conditions, and increased worker productivity.

"However, in seeking solutions to these farm labor issues, we must first re-examine our own ingrained perceptions of those who labor on the nation's fields and farms," says Whitener.

Ingrained Images

According to Whitener, when Americans think of farmworkers, they often see stereotypes colored by the media or local observation in one area of the country.

"They visualize a group of low-income, largely Hispanic and black workers who harvest the nation's fruits and vegetables. The living and working conditions are deemed to be poor. Many people equate all farmworkers with migrants who travel through many states to harvest crops," she says.

This image is not entirely accurate. Only 25 percent of hired workers are Hispanic or black, and probably less than a third of all farmworker families

fall below the official poverty line. In addition, migrants make up less than one-tenth of the hired farm labor force, although they are of particular importance in the harvest of specific crops—notably fruits and vegetables on large farms in California, Texas, and Florida.

These statistics are clouded, however, because of the unknown number of illegal aliens who enter this country to work in farming (see last month's article on illegal aliens in agriculture).

The point, says Whitener, is that the hired farm labor force is a diverse one, including:

- Migrant workers harvesting grapes in California and melons in south Texas.
- College students, housewives, and others earning extra income by harvesting vegetables, combining grain, milking cows.
- Hired help working year round on livestock and diary farms.

"People often do not realize the diversity among hired farmworkers," she says. "There is no single or simple way to view the 2.4 million men and women who are the nation's hired farm work force."

Re-examining the way we see farmworkers may contribute to a better understanding of the farm labor force, its problems, and the remedies that may or may not be appropriate, she adds.

A More Prominent Place

Certainly, events are occurring that are changing the role of labor in agriculture and are pushing labor into a more prominent place on the agricultural agenda.

"The number of farmworkers has decreased over time, and workers are now employed on fewer but larger farms," says William Jackson, a USDA economist who has studied farm labor trends. "Mechanization, advanced technology, and the use of improved feeds and seeds, fertilizers, and pesticides have helped to reshape American agriculture."

The rate of replacement of hired help for farm family labor has accelerated.

In 1910, about 14 million people worked to provide agricultural products for use here and abroad. That meant that each one was supplying only about 12 people. Nearly three-quarters of a century later, the total farm labor force (including farm operators, family labor, and hired help) has shrunk substantially, and each worker on U.S. farms is supplying about 75 people on average.

That trend ties together with another one that helps explain the growing importance of paid labor, says Jackson. Although there are fewer people working today's farms, a greater percentage of them are hired employees.

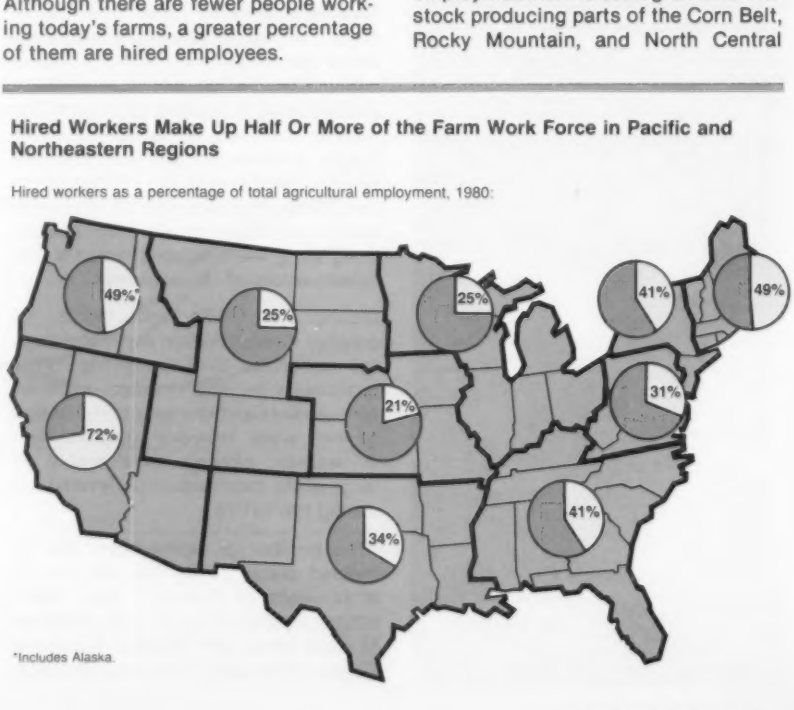
Hired farmworkers as a percentage of total farm employment rose from 23 to 26 percent between 1950 and 1970. Between 1970 and 1980, the proportion of hired farmworkers rose from 26 to 35 percent. Moreover, the rate of replacement of hired help for farm family labor accelerated in the 1970's.

In some areas, like California and Florida, hired workers actually outnumber family workers. Large, labor-intensive farming operations are the major reason these two states show almost exactly the reverse of the national pattern. Less than 30 percent of the farm labor force in California and Florida is composed of farm operators and family members. Hired workers make up the other 70 percent.

In other parts of the country, including the Rio Grande Valley, Mississippi Delta, and parts of the Southeast, family workers generally predominate, accounting for 55 to 70 percent of farm employment. In the cash grain and livestock producing parts of the Corn Belt, Rocky Mountain, and North Central

Hired Workers Make Up Half Or More of the Farm Work Force in Pacific and Northeastern Regions

Hired workers as a percentage of total agricultural employment, 1980:



*Includes Alaska.

Lake states, farm operators and their family members are still in the overwhelming majority, accounting for 75 to 80 percent of farm employment.

A Productivity Equation

Levels of dependence on hired employees may vary, but workers and farmers both benefit when the same skilled workers return each year—a practice increasing in the harvest of fruits and vegetables. There is also an advantage to both groups when workers hold their jobs for longer periods of time.

One such effort in central California achieved noteworthy results. Coastal Growers Association, a farm cooperative composed of about 250 lemon growers, obtained significant gains in efficiency and productivity after the introduction of specific personnel practices, according to a University of California study.

John Mamer, an extension economist with the University of California at Berkeley, says the 13-year study (1965–78) showed several remarkable things.

To begin with, the association had not experienced a labor shortage since 1967—although other firms in the area occasionally had such problems. Then too, the output per worker rose dramatically. In 1964, workers filled an average of less than 4 boxes of lemons per hour. By 1978, output had risen to 8½ boxes per hour, an increase that occurred with no mechanization or significant change in harvest technology.

Workers' benefits rose as well, according to the study. Between 1965 and 1978, wages at the association rose 218 percent, compared with 139 percent for all California farmworkers. Average annual earnings rose from $267 to $3,430 as the number of workers was reduced and the average worker extended the work period from 17 to 89 days a year. Meanwhile, labor costs rose only 26 percent.

Workers were covered by a liberal fringe benefits package including paid vacations, health and hospitalization insurance, retirement and savings plans, and seniority rights. Promotion potential existed, and virtually all association employees—including bookkeepers, computer operators, and supervisory staff—started as lemon pickers. Coastal Growers Association was helped by the fact that lemons are practically a year-round crop.

Mamer has recently begun to update the findings on Coastal Growers and says "the evidence is that productivity is still as high as ever."

Other, more seasonal crops may not lend themselves as easily to the kinds of personnel practices instituted by the association. Also, higher productivity often means fewer jobs—at least in the short term.

A More Stable Work Force

Another effort that paid off with a more stable work force comes from Florida. A major agricultural firm, also cited in a University of California study, sought to trim the high turnover rate among its workers. It decided to offer the inducement of better-than-average housing for employees. Financing the housing project privately, the firm completed construction by early 1977. Included in the complex were 192 housing units, which can accommodate about 800 workers and family members. Also included were a church, day-care center, post office, and laundry.

Although the firm's seasonal workers are employed only about 7 months out of the year, families are permitted to work elsewhere during the off-season and resume residence in the same unit on returning. The worker retains a permanent home and good housing conditions, and is provided a solid incentive to return. Empioyee turnover at the company was reduced to less than 2 percent a year.

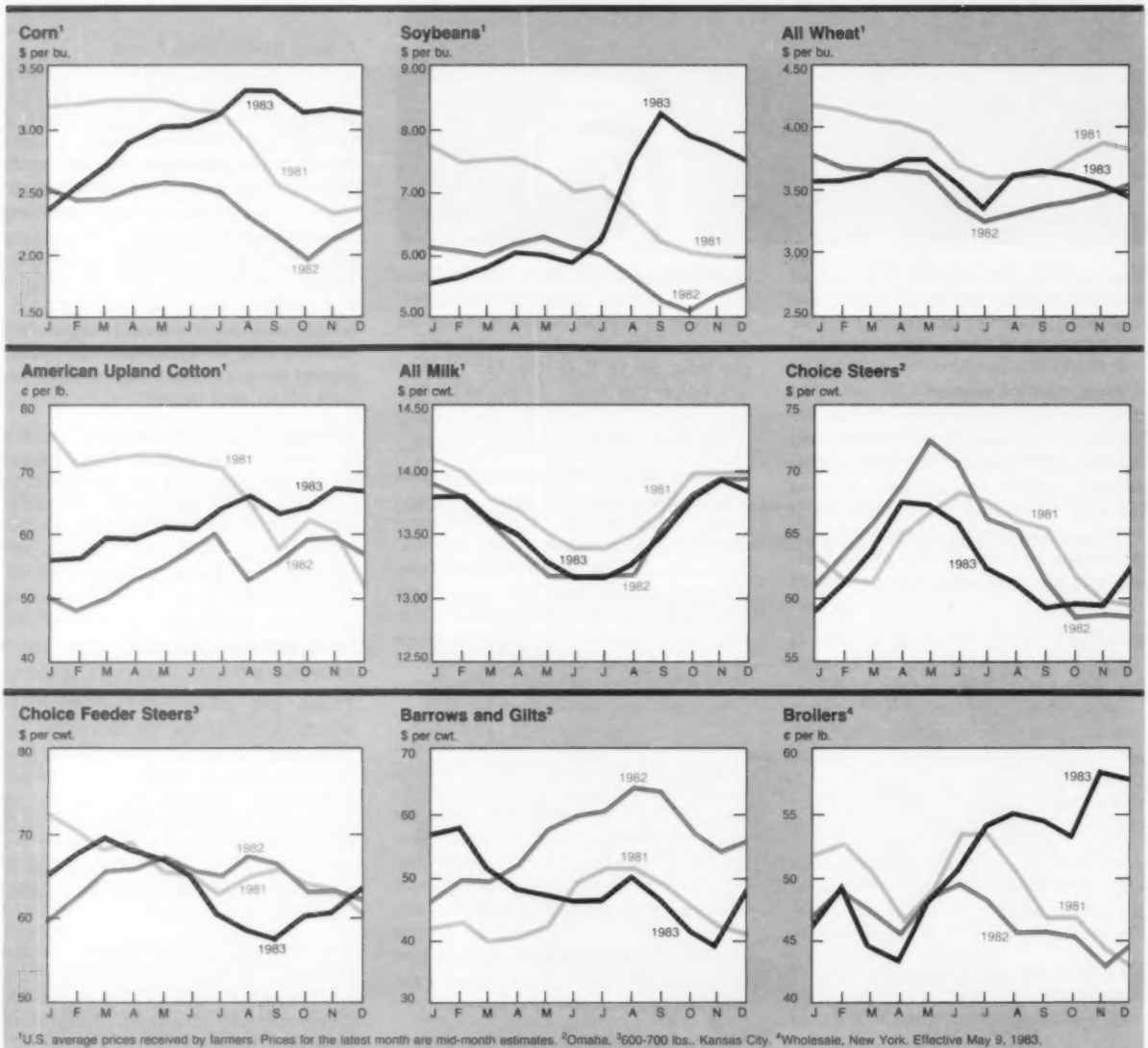
These are promising experiments, which demonstrate the potential for improving job stability and worker productivity through innovative personnel techniques. Although they may not be applicable throughout agriculture, they lend hope to those who seek to improve the wages and working conditions of America's hired farm labor force. □

[*Based largely on information provided by Leslie Whitener, William Jackson, and Susan Pollack of the Economic Development Division, Economic Research Service.*]

FARMLINE TRENDS

Monthly Price Monitor

USDA's index of farm prices rose 3.7% from November to December. Corn and cotton prices held fairly steady, but soybean and wheat prices dropped. Cattle prices rose, while hogs jumped $8.50 per cwt as frigid weather slowed marketings amidst holiday demand. The overall price index ended 1983 at 10% higher than the previous year. Corn was **up** about 90¢ a bushel from December 1982, soybeans **up** more than $2, wheat **down** a nickel, cotton **up** a dime a pound, choice steers **up** nearly $4 per cwt, barrows and gilts **down** almost $8, and broilers **up** 13¢ a pound.



[1]U.S. average prices received by farmers. Prices for the latest month are mid-month estimates. [2]Omaha. [3]600-700 lbs., Kansas City. [4]Wholesale, New York. Effective May 9, 1983, branded U.S. grade A products were added to the broiler price series, so monthly average prices since May 1983 may not be strictly comparable with prices for previous months.

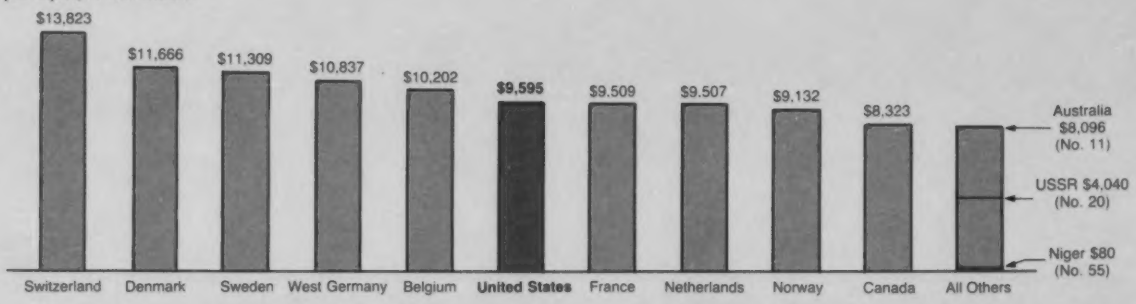
Personal Incomes and Food Expenditures Around the World

	True	False
Americans have the world's highest incomes.	☐	☐
But Americans spend more money on food than consumers in other nations.	☐	☐
The result: Grocery bills eat up a larger portion of the average American's budget than food bills abroad.	☐	☐

It sounds like a good argument that Americans either overindulge or overpay, but there's one hitch. All three statements are false, according to a recent analysis by economist Art Mackie of USDA's Economic Research Service. Here are some of his findings, based on 1979 income and expenditure data for 55 nations.

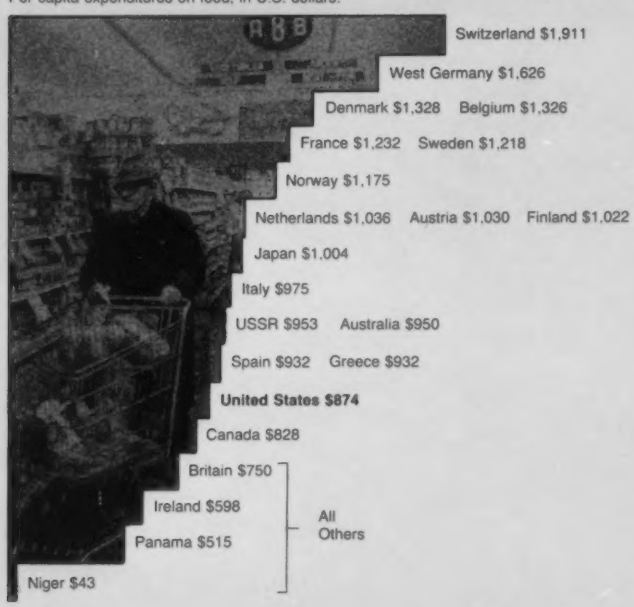
Americans Rank Sixth in Per Capita Income

National disposable income per capita, in U.S. dollars:



The Average European, Japanese, or Russian Apparently Spends More on Food Than the Average American

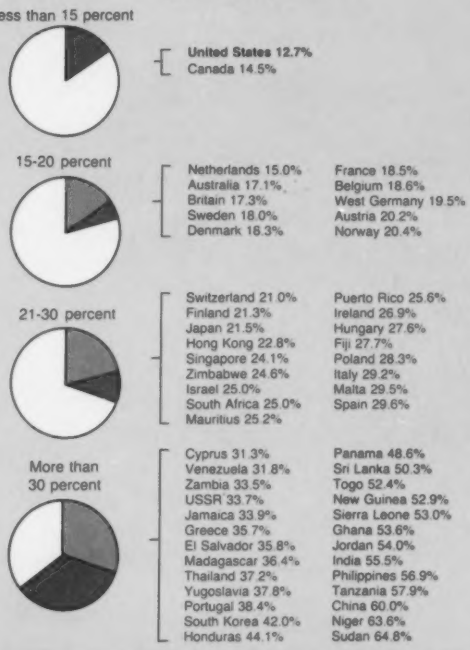
Per capita expenditures on food, in U.S. dollars:



*Based on 1979 national accounts data published by the United Nations and the Organization for Economic Cooperation and Development. These statistics are the latest ones available for comparisons among nations. Food expenditure data exclude expenditures in restaurants and institutions.

When Food Bills Are Measured Against Total Living Expenses, Americans Eat Cheaper

Food expenditures as a percentage of total private expenditures on all items:



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